

Public Meeting on the Proposed Quincy Hydroelectric Project
Quincy City Council Chambers
August 17, 2009

Question 1: Marvin Kerkoff, 1701 State:

How long will it take for a revenue stream to come into the city before this comes to fruition?

Answer:

Mike Klingner: We have actually looked at several scenarios and did a sensitivity analysis' to look at a range of interest rates and a range of market rates and that does vary a great deal and one of the slides, that you weren't able to see but we can provide that information on the Quincy Web site, is when you cross over that line or have a negative cash flow deposit cap based of different scenarios. Some on them, if we are able to get grants, are very quickly in a point where you have a positive cash flow, in a matter of a few years, you can address your bonding and that is something that I'll let Dan talk a little bit more about, so that your, it's not equal payments for interest and principal. You can backload your payment structures so you don't have that negative cash flow, in many of the scenarios. I think what we are trying to do is work out scenarios where the City would not have a negative cash flow, but some of them, if you look at based on what the assumptions are, you do have a negative cash flow as much as twelve years on a few of them. The different scenarios we ran, others are positive very quickly. That's why we want to further refine our estimates and that's why we've recommended the City retain some financial experts to look at how that bonding structure can be set up so that we minimize the risk and negative cash flow. Some of the scenarios, as you pointed out, or you mentioned, that does show a negative cash flow in certain areas. We need to work that financing system together and prevent and provide that report back to the City Council so they understand the different types of scenarios and when you have a negative cash flow and when you would be able to mitigate that.

Question 2: Tim Spake, 2631 Ken Ray Dr.

Given the uncertainty of the future with Cap & Trade and a lot of the costs over runs I've seen in a lot of big projects, is the citizens going to be on the hook for any costs over runs of this project down the road 10, 15, 20 years from now?

Answer:

Dan O'Neil: I think that Steve and I understand that that is what the City's objective to find ways of protecting the City from any kind of extraordinary loss. And certainly during construction you will have a problem engage the contractor who's going to put up his own surety guarantees and there are certainly constructors that have built locks & dams and hydros that understand the risks and rewards of this type of a situation so in which case that constructor is going to be fully responsible for delivering a project front to back thru startup that will generate the electricity that we expect. I would expect that with the technology you will have warranties that will flow from that so that if a unit doesn't perform as expected that that unit will be retrofitted or altered or replaced so that we get what we expected to get. From the structure of the transaction I think the idea is to provide the underpinnings that will provide reserves and proper supports so that the project can in fact stand on its own and that investor, Steve's investors, will understand

that their buying a revenue bond. It may say City of Quincy but the only pledge is the revenue generated from the facility, the dam itself, not the Corp of Engineers.....

Spake: Your talking about the costs overruns of construction, upfront, before it's ever generated any electricity.

ONeil: All they get is the revenue that flows from the project and in fact access to those turbines and the license if in fact there's a default on the bond issued. That's what that investor's understanding of the transaction would be.

Linda Mitchell: One thing that would help in that regard, and I'm not going to say that there's a guarantee that couldn't possibly be an overrun, but a very large percentage of the construction costs is the equipment itself because the installation is relatively easy as these things go. But the equipment costs is something that can be known at the outside of construction so I think there is less potential for overruns there than if you had more civil work in a more complicated installation.

Question 3: Bill Hrudika – 918 Lind

I doubt if I will be around when this all completed. One thing I want to find out is we're talking, what I heard, is two hundred million dollars that something was coming up on a vote. I have no idea. I haven't any figures of what this is costing the City of Quincy or the citizens of Quincy. Where you're putting it right now, it's no cost to the City. It's all going to be on bonds and this and that on revenue. A lot of these people may not understand that, I understand that but I'm not going to be around to see that. So I'm trying to figure out why I should say, let these people vote for this.

Answer:

Mike Klingner: As you mentioned, and I think we're trying to convey that information, we're looking at revenue bonds so that is what's actually financing the project, you're trying to selling that to the investors for the revenue bond. Once it's paid off then it comes to the City. So this is a long term generational, it's probably not probably in my life time either, it's mainly the next generation that will get the most benefit out of the project, but then you look at major civil works and the City of Quincy has a long history of that. We're benefiting from previous generations that took the time to built brick sewers that are still in use in the City of Quincy for over 100 years ago. So a lot of civil projects will last much longer than a typical type of investment and that's what we're looking at, is what's the right thing for the City of Quincy to look at long term that builds in revenue stream other than taxation to pay of the types of services that the government provides. One of the things we did do and provided to the City is looked at other municipalities that have power generation facilities and if you notice in Missouri quite a few communities, including some very small communities, have their own power generation facilities and there seem to be a trend nationally to encourage spreading that power generation out to the smaller generator and that's what we're seeing right now with these incentives that's coming from the federal government to encourage, particularly renewable energy into the smaller scale projects. So what we're looking at is it makes sense for the City of Quincy to take advantage of some of the programs that are out there. If you look at other types of civil works that the City of Quincy has been involved in with, for example, the water treatment plant that was built in the 70's, the reason why that investment was made was because of government grants and support and

I think this project to, will rely on those types of incentives to make it feasible to move forward with the project and for the community to benefit from this project down the line. But it is something that you and I will probably won't, at least the ones with grey hair, see a lot of benefit. There are a few people here, I know, that do dye their hair, I've noticed that. They may not see it as well but it's going to be, in most of those cases. We try to be very upfront with all our reports. You're probably looking as many as 20 years after these things are constructed that you are in position to pay those bonds off. Some of the structures that Dan is working on is trying to see how quickly you can pay those bonds off. Does the City of Quincy want some cash flow with their general operating things. Those are some decisions that need to be made in the future. The quicker you pay your bonds off the quicker you'll have that revenue string.

Hrudika: What is that 200 hundred million dollar bond issue?

Spring: There is no 200 hundred million dollar bond issue, Bill. We're looking at a short term bond here to take us to the licensing stage for a little over 10 million dollars. The two hundred million that you are referring to is the total cost for the project from start to finish. That is the estimated cost through 2016.

Klingner: I would like to follow up with the cost estimate. For each one of those, there about 81 million dollars for #22 so if you build three of them that's where you are close to that two hundred million. Whether we build one or three those are things that will depend on further studies.

Question 4: Allie Lymenstall, 1806 Hilltop

Are there any complete or general layouts which you can get available from Europe where you wouldn't have to do a whole bunch of reengineering the wheel? In other words, if they have projects over there that are operating and they are already engineered, is there a way you can get to them to get some information that would save us a ton of money instead of starting from ground zero?

Answer:

Mike Klingner: What's interesting in Europe is what they call rivers we call creeks. Where they have these installed are pretty small rivers systems. Interesting enough the ones I visited was two different sights, both of them had small lock structures. There were a series of locks just like we have but on a much smaller river. More like the Des Moines or Iowa River is what we observed. We are looking MJ2 was the engineer that was involved and we have talked with that company providing a lot of the base engineering so that we don't reinvent the wheel. That we're using the systems already in place and we're also working with the same manufacturers to the extent possible. We would like to see some of the components manufactured in the United States, but with the quality control issues and the general design of the controlled network we're looking as using MJ2 who did the design of the units currently in operation in France. We are in discussions with them. We actually have even had some memorandums of understandings of how we would operate so that we can take advantage of what they have already engineered and not re-invent the wheel.

Question 5: Reg Ankrom, 1476 Hampshire

The first three locks, one has been suspended, #20, and then one we were going to use as a demonstration. Was that #20 also?

Spring: We hope to use #22. The only way to approach that is with federal monies.

Akrom: We have one lock for which we will be able to install 30 turbine generators for 15 megawatts. And it sounded as though we we're looking at 50 megawatts, so we're looking at #24 and #25 for that. What I am wondering is, have those been approved by FERC and are we ready to go with the licensing/bonding issue for those two locks?

Answer:

Aire DeWaal: What I mentioned earlier is the City just received preliminary permits for those two sites. So what that allows, it gives them a three year time frame to go ahead and do their studies, do their investigations, feasibility type work, to make a decision as to whether or not you want to continue on with the licensing. They have at this point and time have received the FERC approvals they need to go ahead and do that type of work.

Ankrom: What I would ask, Mr. Mayor, one question to ask the Council and the Mayor to appoint an advisory committee so that those of us who do have an interest and believe me, we appreciate the work you have done. The three years of work is very much appreciated. We would just like to know and understand where you're heading with it. Our Aldermen have heard what you have had to say. Some of those have been in executive session, which we haven't had the opportunity to hear the results of. On the other hand they have not conducted public hearings. We'd appreciate public hearings so we know what we are being asked to deal with in the City of Quincy.

Spring: Those meetings that you have referred to, all of those minutes have been released.

Question 6: Ken Sparrow Jr., 1206 Park Place

We all know the economy is struggling and might be for quite some time. A quote I got today from a friend who is in the nuclear power industry in Illinois was that they are struggling to sell power at \$37.00 per megawatt hour currently. Again, spot price, I acknowledge that Pete. And that's about 23% below the assumptions used in the feasibility study. So my question would be, how would the long term depressed energy market affect the feasibility of the project? As a tax payer/investor I think we ought to explore that.

Answer:

Pete Pohlman: The prices that you are seeing now are spot market prices, driven by the fact that energy consumption is down tremendously. And to kind of put that in perspective a Chrysler plant, assembly plant in St. Louis, is basically not running right now. Their annual consumption of electricity is probably in the range of about 14 or 15 times the total energy consumption of the City of Quincy and Adams County. So you have a Chrysler plant down, you have a Ford plant that's reduced. Granite City Steel was down. They probably used something in the range of 5 to 8 times the amount of energy that's used by the entire City of Quincy and Adams County. So with a number of these, in that area, plus around the country, there's wholesale power available. Now, when the economy turns around, and if I knew that and you knew that, we need to get together

cause I want to make some investments. But that could be one year, two years, three years, four years out at the worst scenario. When that turns around there's going to be a demand for power and the prices are going to go up. It's a commodity. We read an article in a paper over the weekend, AMEREN Generating is shutting down part of the Meredosia power plant. Their taking two of the four units out of production. Two of the four hundred megawatts are no longer going to be used. The reason is that they were built back in the 40's and 50's. I don't know of any plans for that to be replaced. So there's going to be a need for 200 megawatts of power. AMEREN UE in Missouri had plans to build a second unit at their Fulton Nuclear power station. They started that process and ran into resistance so they cancelled the project. That was 1,100 megawatts of production. So that's not coming on. So all across the country we have an aging fleet of coal fired power plants that are going to off line and we've got nuclear plants that are getting older and older and no more are going to be built. I mean everybody talks about it but I don't see any nuclears coming on. So, short term, you have natural gas fire picking (?) units. Right now natural gas is \$34.00 in mcf today. Those things can make competitive electricity up to about \$60.00 per mcf of natural gas. A couple years ago natural gas was priced at about \$112 to \$115. Was it economical? Now, in the future, natural gas prices are going to go up as the shortage of oil will develop, and it will. The other use is natural gas and when you stop the use of oil, you start using the natural gas and the price is going to go up. So there is going to be a need for some energy. Wind will fill in part of that. But the other, if we can get it, hydroenergy, is going to be sought after, particularly because it's renewable. Particularly if we seek out Cap & Trade, go forward, being able to find an energy source that doesn't have a huge tax on it because of the Cap & Trade thing is going to be a tremendous benefit. I think long term, down the road, not today, but down the road and they get started it would be on line till 2013 or 2014 and then their going to be out there running 40, 60, 70 years, maybe longer. The dam at Keokuk went on in 1914. In the early 1990's they went in and did major maintenance on it. That was the first major maintenance they had done in the entire time frame. So they are capital intensive when you build them up front, they have no fuel costs like buying coal or uranium or anything else. They rely on the flow of the river. We've got 70 plus years of data on the river, so to me it makes sense, not only from the SCNSC but the CENTS part to go ahead with it. What we see right now with these cheap prices are an anomaly. People have been able to buy at the retail level. One and two year contracts if you're a fairly large commercial industrial customer. Energy is the cheapest than I've seen in years and years. And the price of natural gas just amazes me. As soon as the economy straightens out and turns around, and I'm talking about global economy, world economy, China, India and some of the other countries are big players when it comes to oil, natural gas, electricity and everything else. This will turn around. I think the original assumptions that we made four years ago, and I thought about that today, in 2005 if I had known we were going to have this down turn like we are today, I wouldn't even suggest we do anything like this, but how do you know what's going to happen four years down the road, eight years down the road or ten years. You have to make some assumptions. Those assumptions were good then, I think they are good today. I see Dan over here shaking his head and so maybe I should let him talk. He probably knows more about this than I do.

Spring: One other factor I think to, Mike or Dan can speak to this is the mandatory requirements by the state and the feds for renewable so that plays into this by 2025. 25% has to come from renewable.

Dan O Neil: I totally concur with everything Pete has to say, about the expectations as we come out of this economic cycle and the next one and I think there will be strong demand for that power as well as the fact that people that we're dealing with at other utilities and other consultants have a history with what Pete's done, are indicating to us that there will be that demand and that the rates that Pete has been talking about are going to be workable.

Question 7: Tom Darnell, 4007 S. 24th

I have a question about the Bernardi Group, who did the bidding for this company and how they did this? This is because I am a little cynical because of the past two governors we've had in the state of Illinois, things going on up there that I really don't care for, many of us didn't care for. So I just wondered how that took place.

Answer:

Spring: Bernardi Securities out of Fairview Hgts. has had a relationship with the City of Quincy and they have many many years of public sector service in the bonding market. They have helped with many municipalities with many issues. Most recently renewable issues so we sought their advice to help us move this along.

Steve Adams: We do have quite a long standing and we do 99% of our business in Illinois so we understand the Illinois market and the investors are located here and we know the kind of investors that it's going to take to get this project off the ground. As I said before, it's not going to be your typical mom and pop type investors, if you will. We're going to have to, possibly institutions that we've dealt with before, trust and the like. I don't want to speak for why the City hired us but it's that expertise I believe that we bring to the table that the City felt comfortable with and has allowed us to work on the project with them.

Alderman Paul Havermale: I would like to reiterate something here though, that really didn't answer Mr. Darnell's question, in my opinion. He asked how it came about, not necessarily....

Mayor Spring: It would be my decision to engage their services, professional services in which the Mayor of the City of Quincy has the right to engage various professionals and professional services. I know one the senior partners. I know he has an extensive track record when it comes to municipalities and dealing with issues like this. He has served as a city administrator and understands the ins and outs of city and that's how we asked him to come help us with this process and has been a part of the team that you see assembled in front of us.

Alderman Kyle Moore: Do we allow any local companies involved in the process?

Mayor Spring: We're not to that point in the process. We're still learning the process. We're looking at the advantages that are here for us.

Steve Adams: One thing that Bernardi Securities do is that we like to keep the issuances as local as we can. So we'll work with the local institutions. A lot of these banks here probably aren't dealer banks, as we call them, are able to issue the bonds themselves and

if they need to sell them on the secondary market, they're able to. We can work with the local banks if the City so requests and allow them to purchase bonds that will then be liquid to them in case they need them. If they purchase them on their own from the City they'd basically be stuck with them for the life of the bond. That's one way we work locally and have worked locally with many municipalities though out the state.

Question 8: John Spake, 1520 Stone Creek Dr.

I have a question or concern about the environmental impact studies that are yet to be finished and the results thereof which could affect the permitting process. Is there a chance that we go through this, pay for the studies and then have the studies themselves be used to stop the process?

Mayor Spring: The mere fact that this was an Army Corp. of Engineers study, which was commissioned back in the 80's, I think was an indication to us that they were pretty environmentally sensitive.

Aire DeWaal: Part of the whole FERC licensing process indicates the need to do these environmental studies. One of the things we didn't mention in the program was in order to conduct that licensing process we have to engage upwards of 30 to 40 different federal and state resource agency folks and what type of studies are being done are a direct result of the consultation with those particular agencies. FERC will utilize that information to help determine what type of license their going to issue including what type of conditions they may place on that license in regards to potential environmental mitigation and that sort of thing. It is a large part of the FERC licensing process dealing with the environmental aspects of the project.

John Spake: Is there any chance that the results of the study may stop the project?

Aire DeWaal: There's a potential that FERC may not issue a license because of an environmental situation. It's a very rare instance and I think typically you'll find that given the nature of the type of project that we're looking at here, stopping the project because of an environmental study I think is relatively rare.

Question 9: Jeff Kerkhoff, 1221 Spruce

If the City does go forward with this project even with the minimum 12 to 14 year payback, what my concern is the refinance risk because I remember in the early 80's when prime got up to 20% and I remember in August of 07 the secondary market froze up and then froze up again in September of 08. So even with those risks, can this be structured so that the average citizen directly benefits? With lower utility rates, in other words below low market rates, since basically the full faith in credits are behind these bonds, as I understand it, and essentially the taxing of the citizens in the end, if there is a problem, so that they get a benefit, or the next generation gets the benefit of lower utility rates or like Alaska for their oil pipeline, they have a royalty check cut out to each citizen, or we can do it here instead of every citizen every household, when this does finally comes to fruition, so that way the average citizen can...

Mayor Spring: Your question is the average citizen will gain from this project.

Jeff Kerkhoff: And those are one or two ways that could happen.

Mayor Spring: When we started this process our primary focus is the City was to look at Lock & Dam #21, which is ideally set up for the hydroelectric as they all are other than #20 which we now have dismissed. The original idea was if nothing more, we would entertain this at Lock & Dam #21 to handle our public electric needs meaning the City Hall, Fire stations that we have, Central Services and all of our out buildings, anything that the City owns and operates and pays utility on particularly electricity utility. That's how we got started in this and I think that in itself, if that's what ends up being the final product we're still going to gain by this. The local taxpayer will see a reduction because our costs will be far less. We've made some improvements to these facilities, certainly this is a prime example of one here where it's more than paying for itself with the improvements that we've made to this facility. That's a good question Jeff and I'll let one of the, Mike might want to say something in regards to this as well as far as the benefit to the taxpayer.

Mike Klingner: Looking at what is the benefit back to the community...

Jeff Kerkhoff: The direct.

Mike Klingner: Yes, the direct benefit (inaudible) to the risk. I think in the big picture what is the responsibilities of the City, Water, Sewer and Police and those type of things that we right now tax, that's the revenue source right now is taxes in the community. Is there an opportunity for another revenue source down the road. It may take 20-30 years to get the bonds paid off and really have a healthy revenue stream coming in. But once that is finished then you have other means of having dollars coming into the community other than taxing. It's going to be prudent to the next generation to make sure that the dollars coming in are being used for the type of projects and we have a very good City Council now, that they have a revenue stream that they manage that accordingly. That is what's with our system of government. You have the ability to come up and make sure the Alderman are making the kind of decision when there is a revenue stream other than taxes are they using it in the method you would like to see. It's hard to answer that question now but it is something that has to be depended in the future.

Mayor Spring: That's why although we are using general obligation bonds for this short issuance, eventually that will all fold into a revenue sharing bond.

Jeff Kerkhoff: And that's what I'm concerned about the refi risk because we don't know the secondary market. What if it's like 1980 or just this last year 2008 or 2007 where you had parts of the mortgage backed securities froze up. And I'm just concerned that could easily....

Mayor Spring: I don't know I'm not a financial expert I'll let you confer to one.

Steve Adams: That's something that needs to be addressed at that time. Market conditions are that way at that time, it would probably be something that would put the brakes on this project. Looking forward the bonds could be done, the small part that needs to be refunded now outside of the construction bond can be done as general obligation and alternate revenue bonds of the City and pay back over a longer time period. There is always that possibility. Is it probable? I don't know.

Jeff Kerkhoff: At 20% prime it wasn't that long ago when that happened.

Steve Adams: I understand that and I don't know if it's going to happen tomorrow or not. The City still has some avenues once you get to that point in time either moving forward with the project, not moving forward with the project or other options if they've already got the license. It's just not something that can be easily answered today. It needs a lot of looking at when the time comes to decide if this project is feasible to move on with.

Jeff Kerkhoff: But you understand my concern of the risk though.

Mayor Spring: I think they do and Dan may want to comment. There is risk everyday, for example I was in the Lake of the Ozarks this past week and they stopped a Menards project and they're building Mernards in Quincy, IL. It just depends, there's no way to forecast that far in advance. You have to deal with it as the time arises.

Dan O'Neil: I did live through that period as well and it's amazing how innovative people become during those periods. You may slow down a project or you may warehouse a project until you get some comfort as where the market is heading. Typically during that period we would structure issues with what we would call a "floating rate". (inaudible) the daily or seven day rate paper so we get the advantage of very very low daily rates. Not unlike what Pete was talking about in terms of daily rates on power. Those interest rates may range from 3's to 4's to 5's and then at the time you in effect evolve from that difficult period you then flip to a fixed rate transaction.

Jeff Kerkhoff: I guess my concern is if the City is going to go through all this risk and a long payback of 12 to 14 year that the citizens get the direct benefit. A lot of people are concerned because

Mayor Spring: I think that's why we are doing this.

Jeff Kerkhoff: 50,000 to 40,000 citizens in the last 30 years, that's a 20% decrease but we haven't had a 20% decrease in government. We may have had a 20% increase in government however you measure it. Head count or whatever....

Mayor Spring: We have to stay on the topic here.

Jeff Kerkhoff: I know but it ties to that so I'm just worried that the monies is going to be used to grow government and not go directly to the citizens.

Mayor Spring: I'm not trying to cut you off but we appreciate your comment and we want to be fair to everyone else who asked a question.